

# **ECONOMIC DEVELOPMENT PLAN**

**FOR THE**

**MUNICIPALITY OF KISTANJE**

**Prepared for:**

**Mercy Corps**

and

**United States Agency for International Development**



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## 1. Introduction

**FLAG International, LLC (FI)** is currently implementing a USAID-funded economic development program in Kistanje under a Mercy Corps subgrant agreement as a component of the USAID “Increased, Sustained Returns in Economically and Socially Revitalized War-Affected Areas” (ECRA) activity. The goal of the FI program is to generate economic activity and employment opportunities to revitalize the area and to support refugee return and reintegration.

FI developed this **Economic Development Plan for the Municipality of Kistanje** with the assistance of the Mayor, local and county officials, as well as a large number of local residents. Also providing input on the formulation of this plan were organizations such as Stope Nade, the Đevrske Retiree Association, Dalmatinki Odbor Solidarnosti, and the Cucevo, Potklenje and Gečević Agricultural Cooperatives. A full list of the organizations whose views we sought is given in Appendix B.

The premise of this plan is that economic development, as represented by increasing local employment, incomes, and tax revenues, is a necessary condition for re-vitalization of the area. Based upon that premise, this plan describes some **strategic objectives** and then goes on to propose a number of specific initiatives, the total of which comprise the essential elements of an economic development strategy for Kistanje.

FI will work with local residents, officials, local and international organizations, donor institutions, and other partners to combine their resources to further the goals outlined in this development plan. But while facilitating the combination of resources, FI will especially seek to encourage **local entrepreneurs and agricultural producers** to step forward and work for their own economic benefit and that of the municipality.

A **common problem** in Croatia is that entrepreneurs look towards local and State governments for solutions to economic problems. This approach has frequently failed in Croatia due to inadequate resources of these institutions. In the end, improvements in the economic situation of Croatia will depend on market-oriented solutions and will be based on the economic potential of each solution to generate profit. FI will encourage the municipality to dedicate what resources it has to these ends.

Kistanje is located near a prominent National Park in a heavily trafficked area linking the Croatian hinterland and Zagreb with major population centers on the Adriatic coast. This location presents **unique opportunities** in the tourism and agricultural production sectors, and the municipality must exploit this advantage by concentrating on the promotion of these industries. To do this, local residents in the underutilized labor force must be more effectively organized and encouraged to move their present activities out of the grey economy. FI will work with in local SMEs and residents to strengthen these key industries and to facilitate proper registration of entrepreneurs and enterprises in the area.

FI will develop and work with **counterpart organizations**, primarily the Development Council, a local tourist organization and other community-based entities, to assist in the implementation of this plan. FI will foster the support of all members of the community to create a better economic environment, to revitalize the community and to increase employment opportunities and economic activity in Kistanje.

## 2. Executive Summary

This Economic Development Plan presents recommendations to promote an increase in economic development and employment, which will facilitate the process of return and reintegration. The plan also includes an analysis of existing conditions, particularly in comparison to the pre-conflict situation, and provides recommendations designed to increase the level of economic activity in the local community. FI will work directly with the municipality and its residents to implement this plan.

The plan consists of a series of recommendations for technical assistance to SMEs based on models that have proven successful in other parts of Croatia. Activities are proposed to strengthen SMEs and therefore create jobs. These will include business plan writing and the development of feasibility studies in an effort to locate financing for underutilized manufacturing facilities. Strong recommendations are made to evaluate the possibility of re-starting light manufacturing activities through the development of a Craft Cooperative, as well as development of feasibility studies, market research, and financing sources to develop the local tourism industry.

Recommendations focusing on agricultural production include, in the short term, promoting and providing technical assistance to sustainable agricultural cooperatives as well as other village-level agricultural organizations in the municipality. Others include establishing a strong relationship with local partners such as the Croatian Extension Service, Livestock Selection Service, and County Department of Agriculture, and coordinating technical and donor assistance for members of specialized agricultural cooperatives and associations.

In the long term, FI recommends determining the most profitable agricultural products in the area and providing technical assistance to organize agricultural cooperatives that will provide value-added services and processing for their members. Agricultural cooperatives must be modeled after US or EU cooperatives in their bylaws, services, and ownership structure. FI also recommends an intensive search for bank or donor-supported start-up capital to these agricultural cooperatives through a program to develop value-added services. Farmers must be encouraged to register as taxpayers and to adopt modern farm record keeping systems, while cooperatives must ensure that they are complying with applicable tax and financial reporting regulations.

The plan outlines a long-term process and improvements in the economic situation will occur incrementally and not overnight. Implementation will depend on market and local resident reaction and must have the flexibility to allow for tactical decisions to be taken along the way. The plan, in itself, will not create value unless its recommendations are adopted by the community and acted upon with enthusiasm. It is up to local residents to support these proposals so that market participants will see their interest in providing time and other resource investments in the community. Market players must be encouraged to contribute their own efforts in the knowledge that municipal support will be forthcoming to their mutual benefit.

Immediately below, in summarized format, is a proposed set of tasks that are further elaborated upon in the balance of the plan:

**Task Summary (in priority order):**

The municipality's development over the upcoming 2-3 years requires the execution of the following specific recommendations:

- A Business Support Center must be developed to focus intensively on SME and agricultural development exclusively in Kistanje. FI will create and sustain the center and transfer it to the municipality after the expiry of its mandate in 2003.
- A focus will be placed on a few key industries that have a competitive advantage and offer the possibility of sustained economic activity. These industries include light manufacturing, livestock raising and tourism.
- A Craft Cooperative (Zanatska Zadruga) must be formed in the municipality to provide marketing and organizational support to individuals with light manufacturing skills. Many current residents, particularly from the Janjevo area of Kosovo, have significant expertise in light manufacturing and tool-making. However, the absence of a business entity within the VAT system and a lack of business skills force these individuals to work in the grey economy. FI will assist in the formation of such a Cooperative in order to provide a vehicle to local craftsmen to engage in legally registered business activities.
- A Development Council must be established to serve as an administrative center for marketing and promoting the municipality to potential donors and investors, and to actively pursue contacts with financing institutions to increase investor awareness.
- This Council must also coordinate efforts to strengthen economic development in the municipality and add transparency to the decision-making process. Local actors, and not the municipal authorities acting alone, must take steps to improve their quality of life.
- A Tourist Board must be formed in accordance with national laws and regulations in order to attract visitors and to engage in aggressive marketing efforts to increase touristic income. A pilot project to develop accommodation and other services must be developed, in partnership with FI, the Ministry of Tourism and the Croatian National Tourist Board.
- Efforts must be made to increase the touristic residential capacity and exposure of Kistanje so that “paying customers,” consisting of national park visitors or other parties can stay for longer periods to generate income in the area. As Kistanje is located near the park as well as a heavily trafficked crossroad, agricultural producers must focus on increasing sales to food and accommodation providers to tourists, as well as to travelers in transit through the area.
- Agricultural production should focus on the increased production of livestock to gain further benefit from the conversion of grass into milk and meat for consumption by both local and tourist consumers.
- Using appropriate technical assistance and sources of finance, FI will work to make the TVIK manufacturing facility and former cooperative properties and abandoned buildings in the town economically productive once more. The municipality and government should divest of their other non-performing assets as soon as possible.
- The farmers themselves, through a shared interest and ownership in cooperatives, should own the means by which their products are processed into value-added forms more suitable for transport and sale (milk into cheese, wool into cloth, etc.).

Outlined in the rest of the document are FI's recommendations, which will facilitate the realization of this strategy. The recommendations are designed to be carried out with a high degree of municipal support and community participation. They are presented in two categories: economic development recommendations (with subsections of SME development, light manufacturing, and tourism development) and agricultural recommendations.

## **4. Economic Development Recommendations**

### **A. General SME Development:**

FI will provide assistance to the municipality to implement this economic development plan. FI's goal is to enhance the local SME environment by providing technical assistance and managerial education, while actively searching for equity partners or debt financing for companies that demonstrate potential for growth and profitable operation, but lack capital for expansion. Without start-up capital, SME activity is not expected to create jobs or to provide an income above the Croatian minimum wage in the short-term. However, recent efforts from various donor organizations, as well as new and lower-interest credit lines from Croatian banks, have the possibility to improve the situation and create jobs in the municipality.

FI will target individual SMEs and entrepreneurs interested in improving their economic situation with clear and well-defined technical assistance. Technical assistance is designed for SMEs that have demonstrated the capacity to create jobs. These models have proven successful in other parts of Croatia, and will be used as the basis for assistance in Kistanje.

#### **Short-term Actions**

Entrepreneurs and SMEs desiring technical assistance to expand their operations will be assisted (in the short term) in the following ways:

1. FI will develop a Business Support Center that will be used as a vehicle to provide technical assistance in management, strategic planning, marketing and market research to local SMEs. This assistance will be provided in collaboration with local experts, outside consultants and county business support centers, as needed
2. The Center will be used to establish a strong relationship between Kistanje SME managers and the Croatian Chamber of Commerce as well as applicable Croatian ministries and commercial banks, which have a number of financing and technical support programs available for SMEs. FI will also provide technical assistance to SMEs in evaluating debt financing opportunities and arranging interviews with banks.
3. FI will provide technical assistance in tax compliance to the management of SMEs and assist with establishing accounting and bookkeeping systems based on international accounting standards. Based on FI's experience, local companies are not familiar with Croatian accounting and bookkeeping regulations and, if audited and inspected, are often penalized by local tax authorities.
4. FI will assist in the development of a Development Council within the ECRA-supported Community Working Group to be formed. The Council will serve as an administrative center for marketing and promoting the municipality to potential donors and other partners, and to pursue contacts with financing institutions and outside investors.
5. FI will assist in the formation of a Craft Cooperative to provide marketing and organizational support to individuals with light manufacturing skills. Many current residents, particularly from the Janjevo area of Kosovo, have significant skills and experience in light manufacturing and tool making. However, the lack of a business entity within the VAT system and a lack of business skills have forced these individuals to work in the grey economy. The formation of such a Cooperative will provide a vehicle for local craftsmen to engage in legally registered business activities (see below).

### **Long-term Actions:**

FI's long-term technical assistance will concentrate on:

1. Through the Center, FI will actively search for foreign partners, equity investors or sources of debt or donor financing to assist entrepreneurs and SMEs in finding capital for expansion. For solid SMEs with high potential for profitable operations, FI will work with company management, including arranging for local and foreign experts, to develop documentation needed to attract foreign investment.
2. FI will emphasize an overall focus on a few key industries that have a competitive advantage and offer the potential of sustained economic activity. These industries include light manufacturing and tourism.
3. FI will form a strong relationship with banks in the area to provide a link between SMEs and sources of debt financing. This will include providing due diligence and other services, such as feasibility studies and business plans preparation, that increase the likelihood of debt funding for client SMEs.
4. FI will assist to the degree possible to resolve ownership issues related to the TVIK manufacturing facility, former Cooperative properties and other facilities in the area. FI is already coordinating with the bankruptcy court administrators of many of the former state-owned enterprises in the region.
5. FI will assist in the formation of a municipal Tourist Board in accordance with applicable Croatian laws and regulations. The Board will facilitate efforts to attract visitors and engage in aggressive marketing efforts to increase touristic income.
6. FI will work with a reputable surveying firm to draw up a land use study that would recommend areas for redevelopment, new development and set aside a portion of the local forest property for low impact use. The study can also be used to increase the accuracy of property records, which would provide entrepreneurs with higher-value collateral for bank loans.

### **Light Manufacturing Industry**

Many residents of Kistanje, particularly the recently arrived immigrants from the Janjevo area in Kosovo, have important skills and experience in light manufacturing, plastics and tool making. Many of these individuals are eager to continue working in their fields of expertise but face significant challenges in finding customers, raising working capital and purchasing production equipment. Additionally, they lack a legally registered business entity within the VAT system. This has forced these individuals to work in the "grey" economy as unregistered self-employed craftsmen. Under these conditions, they are unable to issue invoices for their work and therefore face receivables problems, as well as significant marketing and accounting difficulties.

**Craft cooperative:** The formation of a Craft Cooperative will provide a vehicle to local craftsmen to engage in legally registered business activities and assist in resolving many of these difficulties. A Craft Cooperative is a legal entity, fully recognized by Croatian law, voluntarily formed by a group of craftpersons who find that they have limited or no capability of their own to engage in marketing, financing, accounting or purchasing activities. The Cooperative is used to provide professional management services and to coordinate the activities of individual craftsmen, as well as providing value-added marketing and other services.

Currently, there are approximately forty craftpersons in the area who have expressed interest to FI in joining such a Cooperative and registering their business activities. Virtually all of these individuals are currently registered as unemployed. However, many of these individuals are employed on an infrequent and unregistered basis by larger companies in the area. Some of these individuals also perform occasional small tool-making and construction tasks for local customers on an unreported basis in Kistanje. In effect, the vast majority of these individuals are employed in the grey economy, risking punishment by the Croatian tax authorities for their unregistered activities while at the same time being without legal recourse against their customers in the event of late or non-payment.

The formation of a Craft Cooperative, managed by local, experienced toolmakers, will assist its members in attracting customers, in devising purchasing and procurement contracts, and in resolving accounting and marketing issues. At a minimum, such a Cooperative will allow the owner-members to procure equipment more efficiently and to register their economic activities with the Croatian government, as well as other SME development services in the area. In the long run, entering the VAT system and engaging in legally registered economic activities is much more advantageous to the individual producers than operating in the gray economy.

Due to the proximity to the larger cities, (Knin, Split, Šibenik, Zadar) on the Adriatic coast, there is a large potential market that can be exploited with sophisticated marketing and sales tactics provided by the Cooperative. Kistanje has at least one competitive advantage, which is that labor costs on a gross basis are 10-15% lower than in the larger Croatian cities.<sup>1</sup>

Additional details about a Craft Cooperative are as follows:

- The purpose of a Craft Cooperative is to provide economic benefits to its members rather than to generate a return on investment for stockholders.
- The Cooperative provides professional management and accounting services to individual craftsmen, as well as providing value-added marketing and business development activities.
- The capital for a Cooperative comes from the members rather than outside investors.
- Management of a Cooperative is a team effort consisting of four groups - members (owners), board of directors (elected by the members), manager (hired) and other employees (paid).
- Profits are returned to members according to the amount of business they do with the cooperative, which is referred to as patronage.
- Member-owners have limited liability, meaning that they are not obligated beyond their investments in the Cooperative if it should fail.

The formation of such an entity will require significant commitment from potential members, including raising necessary capital and agreeing among themselves on the optimal method of managing the Cooperative. There are a number of advantages that such an organization can offer to the craftsmen in terms of marketing and financial issues. Although a number of challenges also exist, FI will work with all interested potential members, as well as the community leadership, to develop the potential of this concept.

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<sup>1</sup> Source: Croatian Employment Office, Sibenik



## **Tourism Development:**

Kistanje is located near the prominent Krka National Park in a heavily-trafficked area linking the Croatian hinterland and Zagreb with major population centers on the Adriatic coast. This location presents unique opportunities in terms of the potential of organized tourism. Kistanje must leverage its location near the Park and its nearness to the major transport routes between Europe and the Adriatic Coast in an effort to increase economic activity generated by tourism. Although serious impediments currently exist, including destroyed houses, an acute lack of private accommodation and major infrastructure damage, Kistanje has the ability to substantially increase its revenues from tourism in the short term.

The Krka National Park, which attracted over 250,000 visitors last year, is a magnet for touristic and other visitors traveling from the northern part of Dalmatia to the Adriatic coast. As such, it is a large potential market and a source of possible revenues for municipality residents who can offer goods and services to visitors in the area. Since 200,000 of these visitors last year were foreign tourists, mainly Czechs, Slovaks and Germans, there is also the potential for local residents to offer accommodation to these visitors.

FI recommends that Kistanje begin the administrative procedure necessary to form and register a tourist board. However, initial contacts by FI with the Croatian Ministry of Tourism indicate that this will be a process consuming many months, if not over a year. FI will work with municipal officials and the Croatian tourism authorities over the long term to form a Tourist Board in the municipality. Until the registration of such an entity takes place, FI recommends that municipal officials and local residents immediately form a **Tourism Association** in Kistanje. Such an Association will be used to coordinate municipal efforts to increase tourism-related economic activity in the area.

The below recommendations will help Kistanje increase its visibility in tourism and, at little cost, increase tax and other revenues for the municipality:

- A fundamental problem is the lack of accommodation for visitors. This problem will begin to solve itself when a functioning Tourism Association begins to; a) develop interest on the part of tourists in visiting the area, b) increase interest on the part of residents to offer revenue-generating accommodation, and c) awaken interest on the part of relevant local and national tourist authorities in promoting the area.
- The tourism activities of Kistanje should focus on leveraging the existing synergies between agriculture producers, the clean environment and the nearness of the area to other population centers. Funds should be found to modify and adapt local farms to offer accommodation to visitors. Agricultural produce can usually be sold to tourists for a higher price than the price given by processors or the green market, thereby increasing the value of farmer's production. The tourism market should therefore be targeted both by accommodation providers as well as by local agricultural producers.
- Funds from donor and other organizations in the area, as well as bank credits, can be used to improve tourist facilities. The role of a Tourism Association, or Tourist Board, will be to coordinate efforts to locate financing for tourism development, as well as to organize individuals who are interested in offering touristic accommodation or other services to visitors to the area.

To implement these recommendations, FI advises the municipality undertake several activities:

- 1) The municipality should begin the process of Tourist Board (TZ) formation with the Croatian government, and register future tourism activities with the applicable county and national tourist organizations.
- 2) Until the TZ is formed (a process which may require many months), a Tourism Association should be formed by community leaders and interested parties to begin coordinating tourism activities in the area.
- 3) The municipality should concentrate on the promotion of a combination of agricultural production and tourism, which in the tourist industry is marketed under the label "agro-tourism." This approach will also leverage the municipality's location near the Krka National Park.
- 4) The municipality should solicit expressions of interest from local and national SMEs that will develop facilities under concession to expand the present tourist offerings
- 5) A local map, brochures, promotional materials and other marketing tools should be developed, using funds provided by the Croatian National Tourist Board

FI will assist municipal authorities and local entrepreneurs to achieve the above actions for tourism development. This will include creating an effective financial planning and budgeting plan for the Kistanje tourism organization that will be formed. This tourism development process will begin in spring of 2002.

## **B. Agriculture**

### **General Agricultural Development:**

FI will support the process of agricultural development through technical assistance to agricultural Cooperatives. FI will develop potential projects with several processors and companies (Paska Sirana, I-Pak) in the wider area that have expressed interest in expanding into Kistanje. The short-term goal of FI technical assistance will be to create the conditions under which processors will operate in the Kistanje area so that farmers can receive a sustainable income for their production. To achieve this goal, it will be necessary to expand the current levels of production so that processors have a reason to expend their time, fuel and resources in purchasing these farmers' products. FI's long-term goal will be to increase the numbers of livestock in the area through more efficient husbandry and to establish value-added services and processing within agricultural Cooperatives. With the coastal tourist market within short driving distance, there are many opportunities for Cooperative managers to more effectively market their organizations' products.

FI recommends that a new model be implemented, which will bring all NGO and donor capabilities to bear on the problems of this region. The model will combine FI assistance to associations and cooperatives to improve marketing, production and finance, while NGOs and donors direct their support to the association and cooperative level instead of on small-scale, disbursed donations to individuals. In this way, FI's technical assistance, and the services offered by the farmers, can be optimized for large scale production and thus reduce input costs through economies of scale and also provide a unified marketing front for the farmers. The intended results are that the farmers' production value be maximized and that these professionally managed associations and cooperatives concentrate on business issues on behalf of their members.

### **Short-term Actions**

Most of the current farmers are engaged in subsistence farming and their products are consumed in their homes or are sold to neighbors. To change this, and to develop an optimal agricultural market, farmers will be assisted in the following ways:

1. FI and the municipality will connect Kistanje farmers with the Croatian Agriculture Extension Service, other farmers' organizations, processors and the County Department of Agriculture to facilitate information exchange and modern management techniques.
2. FI will promote modern farm record-keeping systems and will encourage all of the farmers to register as individual taxpayers within the VAT system.
3. FI will provide technical assistance in tax compliance to the management of agricultural Cooperatives and assist with establishing accounting and bookkeeping systems based on international accounting standards. Most Cooperatives in the area are not familiar with Croatian accounting and bookkeeping regulations and.
4. FI will immediately began coordinating efforts of donor agencies and locating potential debt financing for farmers to increase the number of livestock in the municipality. Kistanje livestock numbers have shown a decrease of over 50% compared to pre-war livestock levels.
5. FI has already connected local farmers with the Croatian Livestock Selection Service to enroll livestock in the Livestock Selection Program, which this year entitles the farmers to government support and cash subsidies. The purpose of this subsidy program is to improve genetics among existing livestock.

### **Long-term Actions:**

FI's long-term technical assistance will concentrate on:

1. FI will assist in creating conditions so that farmers can receive a sustainable income for their primary agricultural production. To achieve this goal, it will be necessary to expand current levels of production so that agricultural processors, such as cheese producers, are encouraged to expend their time and resources in purchasing goods in the area.
2. Technical assistance will concentrate on introducing new technologies, new products, and conducting marketing research on behalf of the farmers. Introducing improved methods of producing livestock feed for dairy cattle, such as haylage and silage, will increase the size and weight of livestock and add value to livestock production.
3. FI will assist local producers in developing strategies to target visitors to the nearby Krka National Park. As Kistanje is also located near a heavily trafficked crossroads, producers must focus on increasing sales to tourists and accommodation providers in the area. Sales of food directly to tourist consumers will likely increase profit margins for local farmers.
4. FI will work to arrange for donations or loans for equipment, seeds and technical assistance from other donors, banks and the Croatian Ministry of Agriculture. FI recommends that all livestock donations be locally purchased and registered with the Livestock Selection Service.
5. FI will develop linkages with milk processors to facilitate the milking of goats and sheep owned by farmers in the area. Milk sales offer the potential of a substantial increase in income for livestock owners, and have the potential of filling a market need in Sibenik County, which according to the CLSC imports 30% of its annual milk consumption.

## 5. Potential Funding Sources

Developing a focused fund-raising strategy, concentrating on local and national banks, NGO's, reconstruction agencies, international organizations (EU, USAID, UNESCO, etc.) and potential investors is the key to realizing the financial means necessary to foster reconstruction and economic development efforts. Since it is currently not possible for Kistanje to support its needs through tax revenues, a crucial part of its efforts must be focused in the direction of finding the financial means necessary to achieve its goals. Until now, this issue has not been addressed in an optimum and systematic manner.

FI recommends that all potential sources of reconstruction or economic development income be divided into three categories; donor funding, debt financing and direct investment, which are described in detail below:

### A. Donor funding

Donor organizations usually provide resources with limited or no expectations that the resources need to be returned. They typically evaluate in their decision-making process both the size of a potential project and its impact in terms of realizing their goals (return of refugees, etc.). Therefore, all potential donors should be addressed in these terms – explaining the benefits of a project in relation to their goals, and emphasizing the positive aspects of a project in terms of *marketing for the donor*

Kistanje must more effectively target potential donors with a focused campaign to generate reconstruction and development funding. The approach must be considered from a marketing or "fund-raising" perspective. Below is the optimal procedure with which to begin:

- The municipality should research potential donors and their activities in the area and provide them with information explaining some of the needs of the municipality and recommending specific projects in accordance with accurate cost projections. A goal should be set (for example, 20 contacts monthly) and a log kept of all efforts.
- International non-governmental organizations, multinational companies, large and successful Croatian corporations, influential individuals, etc., should be targeted. Other potential donors, including foreign embassies, consulates and all major UN and EU organizations should also be contacted.
- An effort must be made to search for grants and incentives developed by various Croatian ministries, particularly the Ministry of Agriculture and Ministry of Economy. FI will assist the municipality in procuring government grant funding for SMEs.

### B. Debt financing

Debt financing, which can apply both to a "development" bank such as HBOR as well as to smaller "for profit" banks which are of course more common, represent a valuable potential source of funding for SMEs in the Kistanje area. However, a major problem for entrepreneurs seeking debt financing is that Croatian banks require high amounts of collateral for loan disbursement. This is a response to the inherent risk of making a loan under the current economic conditions in Croatia, particularly in the war-affected areas.

Efforts must be made to reduce risk, gain banker confidence and to present professional business plans to lending institutions. The following steps will assist in this process:

- The first step is to conduct a detailed survey of credit programs that are available to SMEs at the local and national level. FI has completed this process and the survey is available to all interested parties. The length of the document (over 30 pages) precludes its attachment to this strategic plan, but it is available at the FI Business Support Center and will be used to facilitate, to the highest degree possible, funding requests by SMEs.
- A strong relationship with local and national banks, particularly in Zagreb, Split and Zadar, must be fostered to provide links between SMEs in Kistanje and sources of debt financing. The municipality can assist by providing support as well as available municipal resources (abandoned buildings, etc.) to SMEs in support of this effort.
- As SMEs grow, are formed or new projects are developed, a constant monitoring process must be engaged for the municipality to facilitate requests for resources. FI will assist in monitoring SME needs and providing technical assistance through the Business Support Center to facilitate loan requests.

### **C. Direct Investment**

The likelihood of one of the few active SMEs in Kistanje receiving an investment by a profit-oriented firm is not very high due to a perceived lack of competitive advantages and high level of destruction in the area. However, the possibility exists that, in coordination with municipal and government officials, specific projects could be packaged into fully developed proposals that could be attractive for outside investment. Contacts must be increased with investment funds in Zagreb or internationally, and local economists as well as the Business Support Center will work to see what the possibilities are on an exploratory basis.

The search for foreign partners, equity investors or other sources of capital to assist entrepreneurs and SMEs in finding capital for expansion is necessary. For solid SMEs with high potential for profitable operations, technical assistance must be provided to work with management to develop business plans and other documentation to attract investment.

Although significant reconstruction efforts must take place in an effort to improve the local infrastructure and increase economic development, FI recommends that a study focusing on tourism and light manufacturing be developed with an initial focus on donor or debt financing. These activities, possibly operated under a concession from the local and national government, offer the best chances for a profit-oriented SME or economic development project that will interest investors.

## 6. Conclusion

This study presents a detailed economic development plan for Kistanje that must be used to focus efforts on increasing employment opportunities and generating economic activity for the local community. By providing a focus on key industries with an emphasis on low inputs and sustainability, the study provides important suggestions for future planning. Securing additional financial sources is vital for the area's development and is the key limiting factor in the process of economic recovery. It is vitally important that Kistanje implement a plan for economic development, particularly one that will foster confidence in potential supporters of economic activity in the municipality (banks, investors, large companies, etc).

The focus of economic development efforts in Kistanje and other municipalities should be on agricultural production and the SME sector, including agricultural Cooperatives, services, and tourism. As has been demonstrated in other areas of Croatia, unless there are viable economic opportunities for returnees, working age populations will not return in large numbers, nor will they remain in the area. The goals of these recommendations are to create sustainable employment opportunities by strengthening and expanding SMEs, and to establish farmer-owned agricultural cooperatives in the municipality that will provide value-added services and processing for farmers to increase their income from their primary production.

These recommendations are designed to be carried out with a high degree of municipal support and community participation. FI intends to provide technical and other assistance to the highest degree necessary to transform the municipality and to develop employment and return opportunities for all current and former residents. The development of a local Business Support Center and a search for local and international partners and organizations will add significant value to this process.

In conclusion, the recommendations outlined in this plan are by no means comprehensive and will not solve the overall problem of limited available funds for reconstruction and economic development. However, the plan will provide a structure for Kistanje to begin planning for a future in which donor funding and governmental support programs will probably decrease. Implementing the more mundane recommendations presented here will hopefully focus attention on what is really important... continued development of the SME and agricultural sectors and an increased quality of life for present and future municipal residents. It is hoped that this study and other FI efforts will contribute to this.

## **APPENDIX A - INFORMATION ABOUT THE MUNICIPALITY OF KISTANJE**

The municipality of Kistanje is located in the northwest portion of Šibenik-Knin County in the center of the Middle-Dalmatian plateau. It has a surface area of 244 square kilometers and borders on the following municipalities: Knin, Ervenik, Lišane Ostrovačke, Benkovac, Obrovac and Skradin. The local administration building and the municipal seat are located in the village of Kistanje. The area is very rocky and in general unsuitable for crop farming, although it is ideal for the raising of livestock, particularly sheep and goats.

Kistanje is situated in a heavily trafficked area linking the Croatian hinterland and Zagreb with the population centers on the Adriatic coast. The eastern half of the municipality directly adjoins the Krka National Park, which contains a spectacular river canyon that empties into the Adriatic Sea. Aside from the natural beauty of the area, there are significant historical monuments dating from the age of the Roman Empire (the old town of Burnum, which was the headquarters of the 4<sup>th</sup> Roman Legion), as well as fortifications from the Middle Ages, well-preserved monasteries and churches. The climate system is Mediterranean type, meaning that summers are hot and dry, while winters are very mild and in general without snowfall.

### **A. Pre-conflict situation**

Before the war, Kistanje was located within the municipality of Knin. After the 1997 Law of the Territorial System of Croatia was passed, the Knin municipality was divided into three new municipalities, with the municipality of Kistanje being formed in the southwest with 14 surrounding villages.

According to the 1991 census, there were 7,816 inhabitants in the municipality, of which 3% were ethnic Croatian, 95% ethnic Serb and 2% "other," primarily Yugoslav. Kistanje was considered an underdeveloped region by the Yugoslav government, and several companies were founded and governed on non-sustainable socialistic principles based on providing full employment to the municipal residents. The area received substantial economic development assistance of this kind from the communist government, which built large factories in the area to provide employment for local residents. The two largest facilities, **JADRAN-METAL** and the local branch of the **TVIK** screw factory in Knin, employed 260 and 400 workers, respectively. As the total number of individuals employed in the municipality was 1,148 in 1991, these two enterprises represented a significant portion of the pre-war economic activity of the area.

In addition, public sector entities such as the police department employed 84 residents, while 3,312 residents were homemakers or receiving unemployment or retirement pensions in 1991. The remaining households (less than 10 percent) were solely supported by farm income. Residents employed full time in socially owned enterprises and the public sector derived their primary income from salaries, while supplementing their income with small-scale agricultural production for sale on local markets.

The Kistanje area was never competitive in crop production and the vast majority of households were primarily supported by non-farm income. However, similar to most rural areas in Croatia, many of the households supplemented this income with limited agricultural production. Typically, this consisted of a garden with small amounts of fruits and vegetables, orchards, cows, poultry, sheep and/or goats. These products were mainly produced for household consumption and small amounts were sold on the local fresh markets.

## **B. Current situation**

After the restructuring of the municipal borders in 1997, the Kistanje municipality now consists of the following 14 settlements: Biovičino Selo, Devrske, Gošići, Ivoševci, Kakanj, Kistanje, Kolašac, Krnjeuve, Modrino Selo, Nunić, Parčić, Smrdelje, Varivode and Zečevo. The municipality today faces a number of problems related to significant war-damage in the town and surrounding area. There are a number of changes from the pre-war situation that make it difficult for the local inhabitants to return. Many villages are virtually deserted, there are few employment or economic opportunities for returnees, and a community of ethnic Croats from the Janjevo area of Kosovo, consisting of roughly 300 families, has immigrated to the area

According to local officials there are approximately 3,430 inhabitants currently resident in the municipality. The approximate number of those employed is 90, out of which 12 work in the police and municipal building while the rest are employed in the municipal government, forestry department or schools. Officially, there are 243 unemployed persons in the municipality. The unofficial, i.e. actual number of unemployed is much higher, approaching 80% of the population.

According to FI estimates, there are approximately 28 individuals working in full-time productive employment in the private sector (tool-making, carpentry and other crafts, etc.). The rest of those who have some type of employment, almost entirely in the unregistered economy, are operating in cafes or in the unprofitable retail sector, selling shoddily made textile goods in unregistered roadside shops to the transit market.

Much of the infrastructure of the town is in need of redevelopment. The water-supply network and sewage systems are in poor condition and need extensive renewal. Additionally, approximately 85 kilometers of road needs to be paved, and of 168 kilometers of transmission lines in the municipality, over 80% of the total needs some level of repair. The total municipal budget for calendar year 2001 was 3.4 million kuna, which is insufficient to meet the municipality's needs or to engage in any type of reconstruction effort.

### **Municipality leadership**

The municipality is led by the Municipal Council (Općinsko Vijeće), which was formed in August 2000 and consists of 9 members: 3 SDP representatives, 3 HDZ representatives and 3 representatives from the SDSS. Full-time municipal personnel include:

- Mayor: Marko Kardum, SDP, professionally employed,
- Deputy Mayor: Paško Erak, HDZ, volunteer,
- President of Municipal Council: Dinko Tomčić, volunteer,
- President of Legal Affairs: Marjan Poturović, professionally employed.

### **Municipal Assets**

Due to the war, land records are incomplete and the municipality was unable to provide detailed information on the status of its assets. According to informal sources in Kistanje, property owned by the municipality and/or the Croatian Government in Kistanje includes the municipal building, a few shops and crafts in the town, cemeteries, and conflicting amounts of arable and non-arable land. The municipality also owns a garbage truck and a Renault sedan.



**Estimated population structure of villages in municipality of Kistanje (1991-2001)**

	<b>Village</b>	<b>Census 1991.</b>	<b>Census 2001.</b>	<b>Voter Registration List 2001</b>	<b>Employed 1991</b>	<b>Employed 2001</b>
1	Biovičino Selo	948	210	302	160	0
2	Đevrske	836	300	320	95	9
3	Gošići	107	40	31	15	0
4	Ivoševci	977	410	481	188	2
5	Kakanj	192	60	58	31	0
6	Kistanje	2021	1940	1523	229	61
7	Kolašac	278	50	55	37	0
8	Krnjeuve	245	70	81	33	0
9	Modrino Selo	337	30	73	73	0
10	Nunić	298	110	155	39	1
11	Parčić	352		42	73	0
12	Smrdelje	530	80	136	80	1
13	Varivode	477	90	157	65	0
14	Zečevo	218	50	64	40	1
	<b>TOTAL:</b>	<b>7816</b>	<b>3440</b>	<b>3478</b>	<b>1158</b>	<b>75</b>

**NOTE:** The current population count is an estimate and varies on the ground due to the transient nature of a portion of the population shuttling between Kistanje and BiH or Yugoslavia. Before the war, ethnic Serbs made up over 95% of the total number of the inhabitants, while today the percentage of the Serb population is approximately 50%.

**C. Economic activity**

Despite the war, SMEs in Kistanje functioned (albeit at a much lower capacity) during the period of Serb occupation from 1991-1995. The town itself and most of the villages were not damaged, as the area was not near the front-line. After Operation Storm, the Serb population deserted the town and over the following year most of the buildings in the town and the surrounding area were burned and looted. As a result, over 45% of housing capacity of the municipality is damaged and most of the machines, equipment and stock from the local companies and stores have disappeared.

Most of the firms that were operational prior to the conflict remain closed, and those that are still operational have major challenges and are operating at a fraction of their capacity. Locating qualified human capital, securing financing, and rebuilding damaged state-owned properties are just a fraction of the major obstacles for potential employers and investors.

Most economic activity in Kistanje before the war was based on the existence of two large state-owned factories that produced goods and services in the area. Both have been in bankruptcy for many years, and their employment levels are currently zero. TVIK is in bankruptcy and is awaiting a buyer or strategic investor. Jadran Metal has been liquidated, and the production facility has been sold to a group of five individuals. No production or employment has begun in the facility, which is being used as a warehouse by the new owners.

**D. Agricultural Production**

Most of the households in the area are engaged in small-scale, mixed agricultural production in combination with pension payments or donations from NGO's and/or from family members located outside of Croatia. Agricultural production is very basic and consists primarily of raising livestock, small crops of fruit and vegetables, and limited grain crops. The number of livestock has decreased to 65% of pre-war levels.

**Cattle breeding**

According to information of the Croatian Livestock Selection Center, the number of livestock in the Kistanje municipality in 1990 and 2001 can be seen from following table:

<b>Cattle/Year</b>	<b>2001</b>	<b>1990</b>
Sheep	7,230	15,000
Goats	748	1,920
Donkeys	16	
Cows	142	840
<b>TOTAL</b>	<b>8,136</b>	<b>17,760</b>

**Livestock numbers by village (where available):**

	<b>Village</b>	<b>Sheep</b>	<b>Goats</b>	<b>Cows</b>
1	Biovičino Selo	824	10	3
2	Đevrske	334	11	9
3	Gošići	112	2	3
4	Ivoševci	1006	39	48
5	Kakanj	253		
6	Kistanje	1926	486	19
7	Kolašac	521	49	5
8	Krnjeuve	132	3	4
9	Modrino Selo	197	19	1
10	Nunić	1177	20	11
11	Parčić	164	26	2
12	Smrdelje	192	3	3
13	Varivode	253	4	2
14	Zečevo	139	5	2
	<b>TOTAL:</b>	<b>7230</b>	<b>672</b>	<b>112</b>

**Agricultural structure of villages in municipality of Kistanje in hectares (2001)**

	Plough land	Orchard	Olive groves	Vineyards	Meadows	Pastures	Total agricultural land	Forest	Infertile land	TOTAL
Kolašac	95			1	6	117	219	134	8	361
Ivoševci	500	1		8	75	734	1318	527	108	1,953
Biovičino Selo	300			3		484	787	251	14	1,052
Đevrske	280			30	84	538	932	34	21	987
Parčić	120			1		625	746	155	401	1,302
Nunić	300			5	55	231	591	303	11	905
Modrino Selo	150			1	15	235	401	147	6	554
Gošići	148	6		8	56	132	350	43	4	397
Kistanje	950	12		12	95	579	1648	1408	76	3,132
Smrđelje	150			1	10	267	428	115	11	10,643
Total:	2993	19	0	70	396	3942	7420	3117	660	21,286

**Agricultural crops in hectares (1991)**

Crops	Đevrske	Smrđelje	Gošići	Modrino Selo	Nunić	Ivoševci	Kistanje	Kolašac	Biovičino Selo	Parčić	Total
Wheat	2			1	1	4	3		1		12
Barley	2			1	2	5	4		2	1	17
Oat	1				1	2	1				5
Corn							1				1
Potato	1	1		1	1	1	2	1	1	1	10
Alfalfa	13	4		3	7		10	1	4	5	47
Vegetables	3	2		2	4		8	1	2	2	24
Legumes	1					1	1				3
Vineyards	25	1	6	1	5	8	12	1	3	1	63
<b>TOTAL (ha)</b>	<b>48</b>	<b>8</b>	<b>6</b>	<b>9</b>	<b>21</b>	<b>21</b>	<b>42</b>	<b>4</b>	<b>13</b>	<b>10</b>	<b>182</b>
<b>Orchards</b>											
Fig trees	780	500	280	450	450	500	550	480	300	500	4790
Apple	200	250	110	200	190	290	390	200	200	210	2240
Pear	200	350	100	300	150	290	290	300	200	320	2500
Apricot	90	70		70	80	75	80	50	5	40	560
Cherry	400	250	60	200	400	100	500	170	250	180	2510
Sour cherry	200	100	70	100	200	200	300	100	150	70	1490
Plum	500	400	70	400	400	400	500	400	800	440	4310
Peach	180	200		125	80	240	150	135	110	120	1340
Olive	900	300									1200
Almond	1400	850	290	850	1000	1500	1400	750	1050	800	9890
Nut	380	220	90	270	450	450	350	220	520	260	3210
<b>TOTAL (trees)</b>	<b>5230</b>	<b>3490</b>	<b>1070</b>	<b>2965</b>	<b>3400</b>	<b>4045</b>	<b>4510</b>	<b>2805</b>	<b>3585</b>	<b>2940</b>	<b>34,040</b>

## **Agricultural Cooperatives in Kistanje**

**Pre-war:** Before 1991, there were two agricultural co-operatives in Đevrske and Kistanje:

### **Đevrske Agricultural Cooperative**

Founded in 1903, it is one of the oldest cooperatives in Dalmatia, and engaged in many activities (production buy-off, agricultural services, mechanization, etc.). The Cooperative had 45 employees and owned a hotel, a mill, a small petrol station and a collecting-distributing center with a total surface of five hectares. The Cooperative was situated on the main Knin-Zadar road and the Knin-Zadar railroad, which provided good distribution access.

In 1996 the Cooperative was re-registered by a Mr. Krpan, who began rebuilding the facilities. He received debt financing and renovated the hotel and surrounding Cooperative properties. With a focus on agro-tourism and health food production, the Cooperative currently appears to be successful, and employs four people.

### **Kistanje Agricultural Cooperative**

Founded in 1964, the main activity was sheep, skin, wool, and cattle buy-off. The Cooperative also had various distribution outlets (general stores) in the villages near Bukovica. There were approximately 100 employed. Today, the facilities are devastated and the municipality is attempting to dispose of them.

**Current:** The below agricultural organizations are currently registered in the municipality:

1. Agricultural Cooperative "Potklenje" in Nunić, 22 founders (3 Croats, 19 Serbs), manager Mrs. Škorić, agricultural engineer
2. Agricultural Cooperative "Cucevo" in Čučevo, 20 founders (3 Croats and 17 Serbs), manager Mr. Mravunac
3. Agricultural Cooperative "Gečević" in Kistanje, 7 founders (Janjevci Croats), manager Mr. Gečević
4. Agricultural Cooperative "Glama" in Kistanje, 6 founders, manager Mr. Tomkić
5. Agricultural Cooperative "Đevrske" in Đevrske, 3 founders, manager Mr. Krpan
6. Agricultural Association of Livestock Breeders "Bukovica and Ivosevci" in Kistanje, 65 members

Agricultural Cooperatives are usually the nucleus of local farmer efforts, with the goal of coordinate sales and marketing efforts, and adding value to their basic production. Many of the above Cooperatives, however, need substantial technical assistance and significant resources before they are able to fill that role. There are clearly too many Cooperatives in the area, and all of the existing ones lack specialization that would allow them to adequately compete with better-organized Cooperatives on the coast and in the Croatian hinterland.

In addition, some of the Cooperatives appear to have been formed solely in order to acquire former pre-war Cooperative assets or to gain donor funding. The result is an excess of Cooperatives in the municipality. FI will work with local farmers and the managers of the above Cooperatives to determine the most profitable products and optimal marketing strategy in the municipality of Kistanje. Technical assistance will be provided to assist local agricultural Cooperatives that will provide value-added services and processing for the farmer members. Cooperatives that do not provide services to members will be encouraged to do so, and FI will provide training and technical assistance to facilitate this process.

**APPENDIX B - SOURCES OF INFORMATION**

Agricultural Cooperative Cucevo  
Agricultural Cooperative Potklenje  
Arbeiter-Samariter Bund (ASB) Knin  
Croatian Ministry for Public Works and Reconstruction  
Croatian Ministry of Tourism  
Croatian Ministry of Agriculture  
Croatian National Tourist Board  
CARE Knin  
CRS Knin  
Dairy Production and Trade Developments, FASonline  
FI Agricultural Advisors  
ICMC Knin  
IRC Knin  
Sibenik County Chamber of Commerce  
Sibenik County Tax Office  
Sibenik County Institute for Statistics  
Sibenik County Employment Office  
Sibenik County Agriculture Extension Service  
OSCE Knin  
Paska Sirana  
Interviews with residents  
Interviews with dairy processors Tomaic Commerce and I-Pak  
Mayor and municipal officials  
Municipal Land Office  
SEAF  
State Institute for Statistics  
Swiss Federal Statistical Office, Neuchâtel  
UNDP Zagreb  
UNHCR Knin  
United States Department of Agriculture  
UNOPS Sibenik  
World Bank  
Zadružni Savez of Croatia